



No.: **1999-43**
Date: **August 18, 1999**

FEDERAL HOUSING FINANCE BOARD

Modification of Approval for the Federal Home Loan Bank of New York
Community Mortgage Asset Activities Program

WHEREAS, on July 3, 1996, the Board of Directors (BOD) of the Federal Housing Finance Board (Finance Board) adopted Resolution Number 1996-44 (Res. 96-44) approving the request of the Federal Home Loan Bank (FHLBank) of New York to establish a pilot program, called "Community Mortgage Asset Activities Program" (CMAA), under which the FHLBank proposed to fund up to \$250 million in participation interests in housing and community development loans meeting the income targets established for the Community Investment Program (CIP) originated by members and eligible non-member borrowers, subject to the conditions set forth in Res. 96-44; and

WHEREAS, Res. 96-44 reflects the conclusion of the BOD of the Finance Board that the CMAA pilot program, as approved, satisfied the criteria for approval of mission-related FHLBank investments set forth in section II.B.12 of the Financial Management Policy for the FHLBank System (FMP), see Res. No. 96-45 (July 3, 1996), in that: (1) the program's targeting, and the positive impact the program would have on the loans-to-one borrower limits of members specializing in such targeted lending, would facilitate the provision of credit in areas of the community where funding might not, without FHLBank involvement, otherwise be available; (2) in facilitating such targeted originations by certain members, and in offering shares of its participation to other members who might not otherwise be able to engage in such lending, the program acts to promote the cooperative nature of the FHLBank System; and (3) the FHLBank's in-house expertise, the involvement of its board and senior management in the development of the program's business plan, policies, underwriting guidelines, and monitoring and reporting requirements, the intended establishment of reserves appropriate to risk, and the level of program oversight contemplated, should ensure preservation of the triple-A rating of the FHLBank and the FHLBank System; and

WHEREAS, following a pre-implementation examination of the CMAA pilot program by staff of the Finance Board's Office of Supervision (OS) that was required under the terms of Res. 96-44, the Director of OS, [REDACTED]

[REDACTED]

WHEREAS, the FHLBank of New York has requested that Res. 96-44 be modified to lift the CIP restrictions, define member to include affiliates and subsidiaries of members and allow the bank to purchase mortgages originated by a member from that member, pool the mortgages, participate back to the originating member the credit support tranche of the pool, and sell to the originating member or any other member any other tranche of the pool;

WHEREAS, the Finance Board has concluded that the modifications of the CMAA program and Res. 96-44 requested would continue to satisfy the criteria for approval of mission-related FHLBank investments set forth in section II.B.12 of FMP, in that they would: (1) ensure the appropriate management of risk exposure and preservation of the FHLBank's and the FHLBank System's triple-A rating by limiting the FHLBank's exposure to credit risk to that of a double-A rated mortgage backed security; (2) assist in providing housing finance and community lending that would be available only at lower levels, or under less attractive terms, by having the member bear the credit risk of the mortgage pools while relieving the member of the interest rate risk, and by allowing members to originate mortgage loans on more flexible and attractive terms than are available through the existing secondary market; and (3) promote the cooperative nature of the FHLBank System by aligning the risk components of mortgage lending between the FHLBank and its members based on each party's ability to manage each risk component; and

WHEREAS, the BOD of the Finance Board has reviewed the Office of Policy, Research and Analysis's Action Memorandum and the attachments thereto, including the Office of General Counsel Opinion, and has relied thereon;

NOW, THEREFORE, IT IS RESOLVED that the BOD of the Finance Board hereby modifies Res. 96-44 by:

- (a) Amending the "NOW THEREFORE BE IT RESOLVED" clause to authorize the FHLBank of New York to acquire up to \$250 million of participation interests in housing loans and community lending, originated by members and eligible nonmember mortgagees with access to FHLBank of New York advances, subject to the listed conditions;
- (b) Replacing condition (1) with a new condition (1), which states "Housing loans and community lending originated by members' shall include housing loans and community lending originated by subsidiaries and affiliates of members, as those terms are defined in the Federal Reserve Act, 12 U.S.C. § 371c(b);
- (c) Adding a new condition (10), which states "Housing loans shall be subject to the conforming loan limits established pursuant to 12 U.S.C. § 1717(b)(2), and community lending shall be subject to the requirements of the Finance Board Community Investment Cash Advance regulation at 12 C.F.R. part 970;
- (d) Adding a new "FURTHER RESOLVED" clause before the final "FURTHER RESOLVED" clause, which states: "FURTHER RESOLVED THAT the FHLBank is authorized to operate a Sequential Participation Program only with its own members and eligible nonmember borrowers under which the FHLBank:
 - (1) Acquires whole residential mortgage loans, originated by its members (including subsidiaries and affiliates of such members) and eligible nonmember borrowers that have an original principal balance falling within the conforming loan limits established pursuant to 12 U.S.C. § 1717(b)(2);

- (2) Pools those mortgages and divides the mortgage pool into three tranches, consisting of a short cashflow tranche, a longer cashflow tranche and a credit support tranche that would be sufficient to enhance the pool at least to the level of subordination afforded double-A rated mortgage-backed securities and which would act as first loss coverage for the life of the pool or until the position is exhausted; and
- (3) Sells the credit support tranche of the pool back to the member or eligible nonmember borrower that originated (or whose subsidiary or affiliate originated) the loans; and
- (4) May sell the short cashflow tranche to the member or eligible nonmember borrower that originated the loans, or may sell either of the non-credit support tranches to any member or eligible nonmember borrower of the FHLBank;

IT IS FURTHER RESOLVED that all other conditions of Res. 96-44 shall remain unchanged and in full force and effect;

IT IS FURTHER RESOLVED that prior to implementation of the Sequential Participation Program, the FHLBank must: provide to the Finance Board a business plan, including any market assessments and pro forma financial projections, and an operational plan, including any policies, requirements or limits to be imposed on the formation, pricing, and management of pool tranches under Sequential Participations; and undergo a pre- and post implementation safety and soundness examination by OS to confirm that appropriate expertise, program policies, procedures, controls and reserves have been established by the FHLBank.

By the Board of Directors of the
Federal Housing Finance Board

/s/ Bruce A. Morrison

Bruce A. Morrison, Chairman